ANNUAL REPORT

CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS

FISCAL YEAR ENDED DECEMBER 31, 1934

C C A

MARCH 9, 1935

CONTAINER CORPORATION OF AMERICA

GENERAL OFFICES • 111 W. WASHINGTON ST., CHICAGO, ILLINOIS

MILLS

Carthage, Indiana
Chicago, Illinois
Cincinnati, Ohio
Circleville, Ohio
Kokomo, Indiana
Philadelphia, Pennsylvania
Wabash, Indiana (leased)

FACTORIES

Anderson, Indiana
Chicago, Illinois
Cincinnati, Ohio
Natick, Massachusetts
Philadelphia, Pennsylvania

BRANCH AND SALES OFFICES

Anderson, Indiana
Chicago, Illinois
Cincinnati, Ohio
Indianapolis, Indiana
Minneapolis, Minnesota
Natick, Massachusetts
New York, New York
Pittsburgh, Pennsylvania
Philadelphia, Pennsylvania
Wabash, Indiana

OPERATING SUBSIDIARIES

Chicago Mill Paper Stock Company

Pioneer Paper Stock Company

Plants located at
Chicago, Illinois (leased)
Kalamazoo, Michigan (leased)
Philadelphia, Pennsylvania (leased)

INACTIVE SUBSIDIARIES

Dixon Board Mills, Inc.
Mid-West Box Company
Sefton Container Corporation

DIRECTORS	SEWELL L. AVERY, Chicago, Illinois WILLIAM R. BASSET, New York, New York J. J. BROSSARD, Chicago, Illinois HENRY B. CLARK, Chicago, Illinois WESLEY M. DIXON, Chicago, Illinois GEORGE DEB. GREENE, New York, New York WILLIAM P. JEFFERY, New York, New York WALTER P. PAEPCKE, Chicago, Illinois A. M. REED, Toledo, Ohio STANLEY A. RUSSELL, New York, New York
EXECUTIVE COMMITTEE	SEWELL L. AVERY WILLIAM P. JEFFERY WALTER P. PAEPCKE STANLEY A. RUSSELL A. M. REED
OFFICERS	President, WALTER P. PAEPCKE Vice President, J. J. BROSSARD Vice President, WESLEY M. DIXON Secretary, E. A. WAGONSELLER Treasurer, H. C. BAUMGARTNER Comptroller, A. J. BAUMGARDT Assistant Treasurer, HUGH K. CRAWFORD Assistant Secretary, CHRIST MADSEN Assistant Secretary, L. A. COMBS

TRANSFER AGENTS

THE FIRST NATIONAL BANK OF CHICAGO, Chicago, Illinois
CITY BANK FARMERS TRUST COMPANY, New York, New York

REGISTRARS

CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST CO., Chicago, Ill.
THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, New York.

CONTAINER CORPORATION OF AMERICA

CHICAGO, ILLINOIS · MARCH 9, 1935

TO THE STOCKHOLDERS OF

CONTAINER CORPORATION OF AMERICA:

WE are submitting herewith the Annual Report of Container Corporation of America for the year ended December 31, 1934. The Auditor's Certificate, Consolidated Balance Sheet and Summary of Consolidated Profit and Loss and Surplus Account are a part of this report. As in previous Annual Reports, various comments, detailed comparisons and additional information follow:

FINANCIAL REVIEW

PROFIT AND LOSS. Operations for the twelve month period ended December 31, 1934 resulted in a profit of $1,112,711; the previous year's profit was $140,921. In each case, these results are after interest charges, amortization of discount and expense on bonds and debentures, reserves for doubtful and bad accounts, revaluation of inventory to the lower of cost or market, provision for depreciation and federal income tax. Profit realized on the purchase of the Company's own bonds and debentures at a discount in anticipation of sinking fund requirements, and book losses resulting from replacements of the larger units of physical properties during the year, are not included in income but as in previous years have been entered direct to earned surplus. It was considered as in previous years that neither the profit on bonds and debentures nor similar losses on capital assets could be considered strictly operating credits or debits, and had they been so considered, it would have substantially destroyed the continuity of comparison of annual operating results and be misleading in calculating per share earnings.

Attention is directed to the fact that the amount of depreciation charged to operations in 1934 was $984,162 as compared with $791,007 in the previous year. The excess of $193,155 is largely the result of an increase made in the depreciation rates over previous years so as to more closely conform with actual experience of useful life of buildings, machinery and equipment. After provision for current preferred stock dividends, the above mentioned earnings amounted to $1.58 per share on the Class A Common Stock and $0.79 per share on the Class B Common Stock.

A comparative summary of operating results for the years of 1932, 1933 and 1934 is given in the following tabulation:

	Year Ended December 31 1932	1933	1934
Consolidated net sales (including brokerage sales of subsidiary)	$11,457,966	$15,419,759	$18,316,508
Cost of sales (exclusive of depreciation)	10,292,552	12,819,457	14,140,468
Gross profit (exclusive of depreciation)	$ 1,165,414	$ 2,600,302	$ 4,176,040
Selling, administrative and general expenses (exclusive of depreciation)	1,188,528	1,096,807	1,375,625
Profit or *loss* from operations (exclusive of depreciation)	$ *23,114*	$ 1,503,495	$ 2,800,415
Miscellaneous income	30,966	40,497	57,218
	$ 7,852	$ 1,543,992	$ 2,857,633
Other Charges:			
Interest	$ 485,639	$ 462,853	$ 445,565
Provision for bad debts	45,863	100,211	74,434
Provision for Federal income taxes	....	....	195,000
	$ 531,502	$ 563,064	$ 714,999
Profit or *loss* before adding non-cash items	$ *523,650*	$ 980,928	$ 2,142,634
Charges not involving cash:			
Provision for depreciation	$ 806,467	$ 791,007	$ 984,162
Amortization of bond discount	50,246	49,000	45,761
	$ 856,713	$ 840,007	$ 1,029,923
Net profit or *loss*	$ *1,380,363*	$ 140,921	$ 1,112,711

Note—In statements issued in previous years "Provision for bad debts" was included in "Selling, administrative and general expenses". Above statement has been corrected to conform with the current year by setting forth "Provision for bad debts" as a separate item.

Note—Loss shown in italics.

While the increase in net profit over the previous year amounts to $971,790, it should be remembered that $193,155 additional depreciation was taken as compared with the previous year. Therefore, the actual comparison of the two years indicates a betterment of $1,164,945 over 1933.

Sales volume increased 18.8% in dollars but showed a decrease of 2.5% in units compared with 1933. During the year, there was a rather gradual decline of selling prices which was largely offset by a corresponding decline in cost of raw materials and operating supplies. However, the average selling price per unit for the year of 1934 was considerably higher than for the previous year, even though lower than at the peak of 1933.

The Paperboard Industry operated at 60% of full capacity in 1934, 63% in 1933, 56% in 1932, 63% in 1931, 65% in 1930 and 78% in 1929. Your Corporation, during the past year, operated at 62% of its capacity. It is evident that in 1934 the Paperboard Industry has again demonstrated its ability to run at a rather satisfactory rate but that the much better results obtained by most factors in the Industry, including your Corporation, were largely the result of better price levels.

The question is often asked, what if any effect, the Paperboard Code had upon prices and what the effect would be if the code were withdrawn. Prices in the Paperboard Industry advanced sharply five months before the code was signed; therefore, price betterment did not come as a result of code operations. Furthermore, there are no provisions in the Paperboard Code relative to selling price or to anything directly affecting selling price. The only mandatory provisions in the code deal with scale of wages and hours of labor. For that reason, a possible discontinuance of the Paperboard Code should not have any direct effect upon future price levels.

Towards the end of 1934, your Corporation entered into a contract with an outside corporation, called Frederick G. Becker, Inc., whereby this Corporation agrees among other things to pay 75 cents a ton for all of its paperboard production at stated intervals for a three year period; these funds less a 10% administrative charge are held by Frederick G. Becker, Inc., subject to your Company's disposition and upon its authority may be used for the lease or acquisition of paper mill properties by your Company. If at the end of three years, any or all of the monies paid in have not been used for such purpose, then at the end of two further years, such monies will be returned to your Corporation together with interest earned thereon.

Since the close of 1934 and up to the present writing, the paper mill properties of Marion Paper Company at Marion, Ind., and of Paper Boards, Inc., Chicago, Illinois have been acquired by your Company and the initial cash payments as well as deferred payments are being made from funds of your Company on deposit with Frederick G. Becker, Inc.

In this way, it is possible for your Company to take over the business of these acquired companies into its own plants and thus increase your Company's volume without unnecessarily disturbing market conditions.

On the balance sheet, the item called, "Advances on Purchase of Properties," together with footnote (5) relate to the above.

WORKING CAPITAL. There follows a comparison of working capital at December 31, 1933 with December 31, 1934 with a column showing increase or decrease of each item:

CURRENT ASSETS:	1933	1934	Increase or Decrease (d)
Cash on hand and in banks	$ 439,616	$ 820,912	$381,296
Tax anticipation warrants at cost plus accrued interest	12,881	1,062	11,819 (d)
Customers' notes and accounts receivable less reserves	1,125,402	1,112,478	12,924 (d)
Miscellaneous receivables	23,630	32,559	8,929
Inventories	2,622,308	2,489,422	132,886 (d)
Total Current Assets	$4,223,837	$4,456,433	$232,596
CURRENT LIABILITIES:			
Accounts payable	$ 924,282	$ 662,192	$262,090 (d)
Building construction and machinery and equipment accounts payable	61,150	326,164	265,014
Accrued interest	28,529	26,940	1,589 (d)
Accrued wages	42,970	61,440	18,470
Reserve for taxes	245,349	195,007	50,342 (d)
Reserve for federal taxes	....	195,000	195,000
Sundry reserves	10,945	21,215	10,270
Current maturities—Dixon Board Mills, Inc. 6% Bonds	14,000	9,000	5,000 (d)
Current maturities—Container Corporation 6% First Mortgage Bonds	....	192,500	192,500
Total Current Liabilities	$1,327,225	$1,689,458	$362,233
Net Working Capital	$2,896,612	$2,766,975	$129,637 (d)
Current Ratio	3.18 to 1	2.64 to 1	

From the above tabulation, you will note that there was a decrease in working capital of $129,637 during the year. The substantial sum of $1,996,138 was expended for improvement of buildings, machinery and equipment. Also $211,981 was spent in the purchase of $268,000 par value of bonds and debentures and $23,321 in the acquisition of 256 shares of preferred stock. In addition, $343,100 par value preferred stock (3,431 shares) was accepted as part payment for product sold to one of the Corporation's large customers who was and is also a large preferred stockholder. The funds needed for these capital expenditures were entirely provided out of the funds supplied by earned depreciation and operating profit.

In spite of the capital expenditures made, cash was increased by $381,296. Accounts receivable decreased $3,995 after provision for bad and doubtful accounts which is believed to be ample to take care of any probable losses. Credit

losses during the year were again comparatively small. Inventory was $132,886 less than a year ago. In accordance with regular practice, inventories were written down to the lower of cost or market, and raw, semi-finished and finished goods appearing in the inventory are in good condition and free of obsolete and unmerchantable items.

The following is an application of funds statement showing the sources of funds and disposition of same:

Funds provided from the following sources:			
Profit for year		$1,112,711	
Add expense items not involving cash—			
Provision for depreciation		984,162	
Amortization of bond discount and expense		45,761	$2,142,634
Net decrease in working capital			129,637
Decrease in other notes and accounts receivable			53,739
Decrease in deferred charges other than bond discount			90,000
			$2,416,010
Were expended or accounted for as follows:			
Purchase of Company's own bonds and debentures (par value $268,000)			$ 211,981
Acquisition and purchase of Company's preferred stock (par value $368,700)			104,487
Additions to plant and equipment		$1,996,138	
Deduct net book value of plant and equipment retired	$339,031		
Less amount on which book loss was charged to surplus	254,935	84,096	1,912,042
Increase in current maturities of funded debt			187,500
			$2,416,010

FUNDED OBLIGATIONS. During the year, your Corporation's funded debt was decreased by $455,500. However, $187,500 of this amount represents an increase in the current maturities of funded debt because of insufficient bonds in the treasury at the close of the year to meet 1935 sinking fund requirements; the actual decrease of funded debt in the hands of the public therefore was $268,000. The Company had in its treasury at the end of the year $57,500 of first mortgage bonds in anticipation of 1935 sinking fund requirements of $250,000. Sufficient debentures are held in the treasury for sinking fund requirements in excess of two years in advance. All interest payments were made when due and sinking fund requirements were met in accordance with provisions of the trust indentures.

The following schedule indicates the reduction of funded indebtedness less current maturities:

	Dec. 31, 1933	Dec. 31, 1934	Increase or Decrease (d)
First Mortgage Sinking Fund 6% Bonds due June 15, 1946	$3,615,500	$3,551,500	$ 64,000 (d
Fifteen Year 5% Debentures due June 1, 1943	4,436,000	4,280,000	156,000 (d)
Dixon Board Mills, Inc. First Mortgage 6% Bonds (due serially to 1942)	201,500	153,500	48,000 (d)
Total in hands of public	$8,253,000	$7,985,000	$268,000 (d)
Less current maturities:			
First Mortgage Sinking Fund 6% Bonds due June 15, 1946	$	$ 192,500	$192,500
Dixon Board Mills, Inc. First Mortgage 6% Bonds (due serially to 1942)	14,000	9,000	5,000 (d)
Total included in current liabilities	$ 14,000	$ 201,500	$187,500
Total funded debt	$8,239,000	$7,783,500	$455,500 (d)

CAPITALIZATION. During the year, the Corporation accepted from one of its largest customers in accordance with contract, 3,431 shares of its own preferred stock at a price of less than $24.00 per share as part payment for merchandise sold. In addition, the Corporation purchased at an average price of $91.00 per share, 256 shares of its preferred stock in anticipation of future sinking fund requirements. All of the above mentioned shares of preferred stock have been retired by proper Board action since the close of the year.

The Company, during the year, conformed with the requirements of the Securities and Exchange Commission and temporarily registered its securities which are listed on the New York Stock Exchange; namely, the Class A and Class B Common stock issues, the First Mortgage Bonds and the 5% Debentures. The management at the present time is giving consideration to the requirements for permanent registration of these securities.

The following summary gives the various issues of capital stock of the Corporation:

Class of Stock	Shares Authorized	Shares Issued	Outstanding December 31, 1933 Shares	Outstanding December 31, 1933 Amount	Outstanding December 31, 1934 Shares	Outstanding December 31, 1934 Amount
PREFERRED—						
7% CUMULATIVE.	*140,431					
Original Series (Par Value $100)...		15,431	15,431	$1,543,100	11,744	$1,174,400
Second Series (Par Value $100)...		3,200	322	32,200	322	32,200
COMMON						
Class A........... (Par Value $20)	2,000,000	373,555	373,555	7,471,100	373,555	7,471,100
Class B........... (No Par Value)	1,200,000	582,389	582,389	2,890,945	582,389	2,890,945
IN TREASURY						
Preferred 1st Series (deducted above)					†3,687	368,700
Preferred 2nd Series (deducted above)			2,878	287,800	†2,878	287,800
Common Class A			5,625	70,500	5,625	70,500
Common Class B			14,637	23,250	14,637	23,250

*Originally authorized 150,000 shares—retired 9569 shares.
†Retired in 1935.

ADJUSTMENTS TO SURPLUS. The profit made on purchase of bonds and debentures below their par value amounted to $56,019. This was credited to earned surplus. In connection with the extensive program for plant improvements, various large units of physical property were retired during the year and the computed loss thereon of $254,582 was charged direct to earned surplus. Losses on other retirements of smaller units not directly connected with the improvement program amounting to $51,455 have been charged to profit and loss account. The discount on preferred stock acquired below its par value in the amount of $264,213 was credited to capital surplus.

The above credits and debits made to surplus account, in addition to the credit of $1,112,711 net profit for the year, affected surplus as shown in the following tabulation:

Earned Surplus:	
Profit for year..	$1,112,711
Profit realized on Company's bonds and debentures purchased below par..	56,019
	$1,168,730
Less:	
Loss on large units of property retired..........................	254,582
Net addition for year..	$ 914,148

In last year's Annual Report, it was stated, "Some needed capital expenditures which were put off during the depression should be considered." For the four years from 1930 to 1933 inclusive, it was deemed essential to conserve cash resources in the absence of profitable operations, and to refrain from making important capital expenditures in the face of distressing business conditions on all sides. When in the latter part of 1933 operations had again begun to result in profit and the outlook for the future seemed considerably improved, an extensive improvement program for the next three years was presented by the Operating Department. It was considered essential by the management that certain improvements and renovations be made in order to keep your Corporation competitively in the forefront as regards both quality of product and cost of production. All capital expenditures which were suggested had been carefully checked over by not only the technical and operating staff of your Corporation but also by nationally known outside experts. As available cash resources and substantially improved earnings allowed, capital expenditures were approved step by step. As a result, capital expenditures were authorized from time to time, as cash funds from earnings before depreciation became available, and proceeded with to the very substantial amount of $1,996,138. These improvements were of three types:

1. Expenditures which were essential in order to insure safety of operations such as new boiler installations.
2. Expenditures which were necessary in order to keep pace with improved quality, available only through the installation of modernized equipment.
3. Expenditures which would result in such lower costs that the investment would pay for itself within two or less years.

In no case were expenditures made for the purpose of expanding capacity; such minor additional capacity as resulted was secured only incidentally because the expenditure was required under one of the three above mentioned classifications. Generally speaking, expenditures were made in connection with renovation of boiler and power equipment, rebuilding of paper mills and collateral equipment, providing for greater and more economical storage facilities for both raw material and semi-finished product and rehabilitation of box factory machinery and equipment. While the three year improvement program laid out a year ago has not been fully completed, nevertheless, a major part has been finished. As a result, both quality of product and operating costs have been improved, and this double betterment should reflect itself in future operating results. Now that the Corporation has spent in the year of 1934 a very substantial amount for improvements and has made up for some of the deficiency of expenditures of the four previous years, the amount of future yearly capital expenditure requirements has, of course, been reduced. As long as the Corporation is depreciating its properties at the rate of approximately $1,000,000 a year, average additional annual expenditures in the future should not exceed that figure to any large extent and probably will be kept well within that amount barring any now unforeseen requirements.

In addition to the above mentioned capital improvements, an amount of $987,480 was expended for repair and maintenance of equipment; this sum was entirely expensed or absorbed in the cost of operations.

It is very gratifying that these two large amounts for capital expenditures and for repair and maintenance could be disbursed without substantially impairing

working capital and could be financed entirely out of profits and earned depreciation without having to take recourse to any outside borrowing.

Your Corporation is conforming with the hours of labor prescribed by the various codes under which it operates. The wage scale being paid at its plants is well in excess of that required by the controlling codes. Your Company is now employing more men and women than at any time in its history, due to the shorter working week and working day and to reasonably good volume.

SALES

Consolidated net sales were $2,896,749 higher than in the preceding year.

The change in the prohibition laws supplied an additional new and important avenue of distribution for the product of the Container Industry. The Sales Development and Promotion Department developed some extremely attractively and artistically designed cartons and shipping cases for many of the large manufacturers of liquor products. As a result, your Company has been and is enjoying substantial business with many of the best known distillers. Further research and development work is constantly going on in the operating laboratories and sales divisions on all types of new products which can be packaged advantageously in some form of paper container.

Even though there has been a considerable increase in the selling price of paper products manufactured by your Corporation, followed by a small recession from the peak prices attained, nevertheless, present selling prices are somewhat less than 80% of the 1926 level. In other words, the Paperboard and Container Industry has made such improvements over the last four or five years that it can now realize a fair profit on a very much lower selling price basis than in the decade between 1920 and 1930. This economic fact is bound to result in the continuous opening of new sales fields for the product of this industry.

The active list of customers of this Corporation aggregates approximately five thousand industrial concerns. Practically every manufactured product in daily use by the people of the United States today requires a package of some sort to protect it in its transportation from point of production to point of consumption. Included among the most important items from point of view of volume to be packed in cartons and containers of your Corporation are canned foods and cereals, soap and cosmetics, drugs and medicines, furniture and household furnishings, textiles and wearing apparel, glass and chinaware, cigars and cigarettes, automobile accessories, (such as tires, tubes, spark plugs, bumpers, etc.) meats, sugar, salt, candy, bottled goods, jewelry, hardware, toys, matches, paints, inks and many other products too numerous to mention.

SUBSIDIARIES

The wholly owned subsidiary companies, namely, Pioneer Paper Stock Company and Chicago Mill Paper Stock Company which gather, clean, bale and deliver waste paper, do an important paper stock brokerage business and also manufacture and sell shredded paper used in the packing of fragile and breakable commodities, had a satisfactory year and contributed to profit.

As of July 1, 1934, the plant at Kalamazoo, Michigan, formerly operated by the Kalamazoo Trading Company, was leased and is now doing a general paper stock business under the same management as the two above mentioned subsidiary companies.

EARNINGS AND DIVIDEND OUTLOOK

WHILE earnings are always unpredictable in advance, the immediate outlook appears quite favorable. Profit and loss for the month of February was very adversely affected by a strike in our largest plant, namely Philadelphia. It was felt by the majority of our employees, as well as by the Management, that this strike was entirely uncalled for in view of the ample wages being paid and the otherwise satisfactory working conditions. Full time operations were resumed in the paper mill on February 28th and in the box shop on March 5th. January profits were quite fair and earnings for March should be very satisfactory.

It was mentioned in last year's Stockholder's Report that in addition to making some needed capital expenditures, earned surplus would have to be rebuilt and accrued preferred dividends taken care of before common stock dividends could be considered. The progress made during 1934 is that the very large capital expenditure program for the year was completed; earned and capital surplus was improved by $1,178,361; but no preferred dividends were paid. As of December 31, 1934, dividend arrears on the outstanding preferred stock amounted to $337,848. Since the close of 1934 your Directors have declared a dividend of $7.00 per share, amounting to $84,462, on the outstanding Preferred stock. This dividend is payable on April 1, 1935.

In view of the fact that the present preferred dividend requirements amount to only $84,462 per annum, it should not take too long to pick up back payments while taking care of future payments currently. The preferred dividend requirements of 1934 were earned thirteen times.

Consideration of common dividend payments will be in order whenever earnings and outlook justify, adequate provision for sinking funds on the substantial funded debt have been made, cash resources permit and after arrears of preferred dividends have been paid.

ORGANIZATION

IN face of the present higher cost of doing business, it is pleasing to note that the combined cost of selling and administrative expense was 6.8% of sales compared with 6.9% of sales during the preceding year.

It is again timely to express appreciation for the good work done by the members of the Sales, Operating, Service Departments and office organizations. The most important element in the successful operation of any business such as this is undoubtedly an alert, intelligent and aggressive organization. We feel that your Corporation has such an organization and attributes to it much of the progress made.

WALTER P. PAEPCKE, President

ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

ONE LA SALLE STREET BUILDING
CHICAGO

To the Board of Directors,

Container Corporation of America:

We have made an examination of the consolidated balance sheet of CONTAINER CORPORATION OF AMERICA AND SUBSIDIARY COMPANIES as at December 31, 1934 and of the statements of consolidated profit and loss and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year; we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of profit and loss and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1934, and the results of their operations for the year ended that date.

Chicago, Illinois,
February 9, 1935.

Arthur Andersen & Co.

CONTAINER CORPORATION OF AMERICA

CONSOLIDATED BALANCE SHEET

ASSETS

Current Assets:			
Cash on hand and in banks		$ 820,911.86	
Customers' notes and accounts receivable—			
Notes	$ 82,159.14		
Accounts	1,193,265.14		
	$ 1,275,424.28		
Less—Reserves for doubtful accounts and allowances	162,945.99	1,112,478.29	
Sundry current receivables		33,620.92	
Inventories of raw materials, work in process, finished goods and supplies—quantities and condition determined by employees of company; priced at the lower of cost or market		2,489,421.95	
Total current assets			$ 4,456,433.02
Other Receivables and Investments—at cost:			
Advances on purchases of properties (5)		$ 48,946.83	
Due from sale of property		22,500.00	
Other advances, deposits, etc.		65,393.62	136,840.45
Plant and Equipment—stated at amounts recorded at dates of acquisition (including acquisitions for stock) based, in part, on appraisals, plus additions since at cost, less reserve for depreciation:			
Land		$ 3,219,639.58	
Buildings including leasehold improvements	$ 7,450,843.47		
Machinery and equipment	12,544,205.73		
Furniture and fixtures	53,172.42		
	$20,048,221.62		
Less—Reserve for depreciation	5,789,049.41	14,259,172.21	
Construction in progress		124,590.84	17,603,402.63
Deferred Charges to Future Operations:			
Unamortized debt discount and expense		$ 359,636.45	
Deferred maintenance charges, etc.		30,616.83	
Prepaid insurance		96,902.06	487,155.34
Goodwill and Patents—written down in prior years to nominal value			1.00
			$22,683,832.44

NOTES:

(1) The entire capital stock, except directors' qualifying shares, of Chicago Mill Paper Stock Company, a subsidiary, is pledged with the trustees for the first mortgage bonds.

(2) The articles of incorporation provide for an annual sinking fund of $200,000.00, if earned, for redemption of original series preferred stock. Purchases of such stock in excess of requirements for 1935 (based on 1934 earnings) amounted to $49,347.02.

(3) Under the terms of the indenture securing the 5% debentures, subsidiary companies may not pay any cash dividends except out of net profits accruing subsequent to January 1, 1928. Surplus accounts of subsidiaries at that date amounted to $367,184.86.

(4) Merchandise in transit ($72,999.43) has not been included in the inventories or in the liabilities.

(5) In January, 1935, the company acquired additional properties for a total consideration of $534,789.69 payable $196,029.69 in 1935 and the balance ($338,760.00) subsequent to 1935. (See page 7 of President's letter).

DECEMBER 31, 1934

LIABILITIES

Current Liabilities:			
Accounts payable		$ 662,191.68	
Due for plant improvements		326,164.22	
Accrued interest, wages, taxes, etc		304,602.09	
Provision for Federal income taxes for 1934		195,000.00	
Funded-debt sinking-fund requirements and maturities in 1935 in excess of bonds held in treasury		201,500.00	
Total current liabilities			$ 1,689,457.99
Funded Debt—less sinking-fund requirements and maturities in 1935 shown above and bonds held in treasury (see accompanying schedule)			7,783,500.00
Reserve for Contingencies			81,622.71
Contingent Liabilities Reported:			
Federal income-tax returns from 1926 to date are in dispute. The maximum amount of additional taxes and interest which may be payable is not determinable but is in excess of the reserve for contingencies.			
Capital Stock and Surplus:			
Capital stock—			
Cumulative preferred of $100-par value—authorized 140,431 shares—			
Original series—7% sinking fund—issued 25,000 shares, retired 9,569 shares, in treasury 3,687 shares (retired in 1935), outstanding 11,744 shares		$ 1,174,400.00	
Second series—7%—issued 3,200 shares, in treasury 2,878 shares (retired in 1935), outstanding 322 shares		32,200.00	
Cumulative-preferred dividends on both series accrued from January 1, 1931 amounted to $28.00 per share, or	$337,848.00		
Common—			
Class A—authorized 2,000,000 shares, par value $20—issued 373,555 shares		7,471,100.00	
Class B—authorized 1,200,000 shares, no-par value—issued 582,389 shares		2,890,945.00	
Total capital stock		$11,568,645.00	
Surplus—			
Capital surplus	$1,922,498.80		
Less—Earned-surplus deficit	268,142.06	1,654,356.74	
		$13,223,001.74	
Less—Treasury stock at cost (5,625 shares of Class A and 14,637 shares of Class B)		93,750.00	13,129,251.74
			$22,683,832.44

CONTAINER CORPORATION OF AMERICA
AND SUBSIDIARY COMPANIES

SUMMARY OF CONSOLIDATED PROFIT-AND-LOSS AND SURPLUS ACCOUNTS FOR THE YEAR ENDING DECEMBER 31, 1934

PROFIT-AND-LOSS ACCOUNT

NET PROFIT from sales after deducting cost of sales including raw materials, labor and overhead (exclusive of depreciation) and selling and administrative expenses (exclusive of bad debts)............		$2,804,476.69
DEDUCT—Provision for depreciation...............		984,161.57*
Net profit from operations....................		$1,820,315.12
DEDUCT:		
Rent, loss on assets retired, etc..................	$ 132,986.54	
Provision for bad debts.........................	74,434.46	$ 207,421.00
Less—		
Purchase discounts, rental and interest earned, etc....................................	$ 136,873.81	
Adjustment of provision for prior years' general taxes..................................	49,269.31	186,143.12
		$ 21,277.88
Net profit before interest and Federal taxes..		$1,799,037.24
INTEREST CHARGES:		
Interest on first mortgage bonds................	$ 214,501.72	
Interest on debentures.........................	215,939.47	
Amortization of bond discount and expense......	45,760.90	
Other interest, etc..........................	15,123.83	491,325.92
Net profit before provision for Federal taxes.		$1,307,711.32
PROVISION FOR FEDERAL INCOME TAXES............		195,000.00
Net profit for the year carried to surplus....		$1,112,711.32

*Depreciation rates used in 1934 as compared with those used in 1933 were increased from 2% to 2½% on buildings, from 4% to 6% on power plants and paper mill machinery, and from 7½% to 10% on general machinery.

SURPLUS ACCOUNTS

CAPITAL SURPLUS:		
Balance at December 31, 1933..................	$1,658,285.41	
Add—Discount on 3,687 shares of preferred stock reacquired during year......................	264,213.39	
Balance at December 31, 1934............		$1,922,498.80
EARNED SURPLUS (deficit):		
Balance at December 31, 1933 (deficit)..........	$1,182,289.71	
Add—Special provision for loss on retirement of plant and equipment in connection with improvement program.......................	254,582.42	
	$1,436,872.13	
DEDUCT—		
Discount on bonds and debentures purchased in anticipation of sinking-fund requirements....	$ 56,018.75	
Net profit for year, as above.................	1,112,711.32	
	$1,168,730.07	
Balance at December 31, 1934 (deficit)....		268,142.06
Net surplus balance at December 31, 1934.		$1,654,356.74

CONTAINER CORPORATION OF AMERICA

STATEMENT OF FUNDED DEBT • DECEMBER 31, 1934

PARTICULARS	Container Corporation of America (1) First Mortgage 6% Bonds Due June 15, 1946	Container Corporation of America (2) 5% Debentures Due June 1, 1943	Dixon Board Mills, Inc. (3) First Mortgage 6% Bonds Due Serially to December 1, 1942	Total
AUTHORIZED	$10,000,000.00	$6,000,000.00	$350,000.00	$16,350,000.00
Less—Unissued	5,000,000.00	....	....	5,000,000.00
Issued	$ 5,000,000.00	$6,000,000.00	$350,000.00	$11,350,000.00
DEDUCT:				
Redeemed	$ 1,391,000.00	$1,300,000.00	$110,000.00	$ 2,801,000.00
In treasury for 1935 sinking-fund requirement or maturity	(4) 57,500.00	200,000.00	11,000.00	268,500.00
In treasury in excess of 1935 sinking-fund requirement or maturity	....	220,000.00	75,500.00	295,500.00
Total	$ 1,448,500.00	$1,720,000.00	$196,500.00	$ 3,365,000.00
BALANCE, December 31, 1934	$ 3,551,500.00	$4,280,000.00	$153,500.00	$ 7,985,000.00
DEDUCT—Amount included in current liabilities (sinking-fund requirements and bond maturities in 1935 in excess of bonds held in treasury)	192,500.00	....	9,000.00	201,500.00
Balance payable subsequent to December 31, 1935	$ 3,359,000.00	$4,280,000.00	$144,500.00	$ 7,783,500.00

NOTES:

(1) The trust indenture requires semi-annual sinking-fund payments of $62,500.00 (or deposit of an equivalent par value of bonds) and in addition annually on May 1, an amount equivalent to 20% of the net profits for the preceding year remaining after payment of dividends for the year on the outstanding preferred stock; such additional amount not to exceed $125,000.00. Under these terms, a sinking-fund payment of $250,000.00 must be met in 1935.

(2) The trust indenture requires semi-annual sinking-fund payments of $100,000.00 or deposit of an equivalent par value of bonds.

(3) These bonds were assumed by Container Corporation of America during 1930 and mature $20,000.00 annually in 1935 and 1936, $30,000.00 annually from 1937 to 1941, inclusive, and $50,000.00 in 1942.

(4) $18,000.00 deposited as an indemnity bond in connection with legal proceedings.

(5) In 1935, the company acquired additional properties, and as part consideration therefor, assumed $318,760.00 of mortgage debt maturing from 1936 to 1939.

MONTGOMERY WARD

Sixty-Third Annual Report
Twelve Months Ended
January 31
1935

MONTGOMERY WARD & CO.,

INCORPORATED

Sixty-Third Annual Report

Twelve Months Ended January 31, 1935

Chicago, Illinois
March 15, 1935

To the Stockholders of
Montgomery Ward & Co.:

The following report presents the financial position of your company at January 31, 1935 and the results of its operations for the year.

Net profit for the year was $9,161,054, which is equal to $1.72 per share on the Common stock outstanding after providing for current dividends on Class "A" stock. For the previous fiscal year, the corresponding earning was $2,227,957, or 18 cents per share. Profit for the past year was after full charges for depreciation of fixed properties, inventory shrinkages, losses on accounts receivable, and taxes of all kinds.

Net sales for the twelve months were $249,805,721. With the exception of 1929, this was the highest volume for any year in the company's history. The improvement in net earnings over last year was due chiefly to the increased sales, with a corresponding reduction of operating costs in relation to the increased volume of business done. Each operating division of the company—retail, mail order, and factories—contributed to the year's net profit.

The larger volume of credit business during the year is in part the result of extending the company's time-payment sales plan to its full line of merchandise. Much of this increase is in sales to regular customers

with established credit standing. The collectibility of our receivables is good, and ample reserves for bad debts have been provided. Inventories of $53,184,318 are in good condition and represent a merchandise position which is satisfactory in relation to the present volume of business.

First mortgage notes and investments have been reduced $1,753,000, largely through the acceptance of Home Owners' Loan Corporation bonds which in most cases have been converted to cash. At January 31 our production of spring catalogs was further advanced than last year and heavier paper stock inventories were carried. Expenditures for additions to fixed properties, principally in the retail division, amounted to $3,877,500. Working capital of $85,716,188 at January 31 was $7,240,510 more than at the close of the previous year. The ratio of current assets to current liabilities was 7.17 to 1.

The current trend of business, as reflected in the month of February just closed, shows a continued sales increase, but also a highly competitive price condition. This, with the increasing tax burden, indicates a lower net profit for the first half of the coming year.

The program of rehabilitating the company's operating properties, started in 1932 and now about half completed, is being actively continued.

Respectfully submitted,

SEWELL L. AVERY,

President

Montgomery Ward & Co.,

(AN ILLINOI

Consolidated Balan

ASSETS

Current Assets:			
Cash (less treasurer's drafts outstanding). . .			$ 23,999,614.90
Marketable securities—			
U. S. Gov't securities (market $1,760,728)		$ 1,708,299.05	
Other securities (market $254,905)...		230,185.95	1,938,485.00
Receivables—less reserves—			
Customers' time-payment and charge accounts (average terms of time-payment accounts eight months, approximately $1,300,000 maturing after one year)		$ 19,601,673.34	
Due from suppliers, claims receivable, etc.		873,348.30	20,475,021.64
Merchandise inventories, quantities and condition determined by the Company; priced at the lower of cost or market (less reserves and including raw materials and factory work in process of $2,492,309)............			53,184,318.37
Total current assets..................			$ 99,597,439.91
First Mortgage Notes and Investments:			
First mortgage notes and land contracts on homes sold (due in installments)......	$ 3,954,287.13		
Homes held for resale (at cost)	6,807,811.57		
	$ 10,762,098.70		
Less—Reserves for losses ...	2,318,080.78	$ 8,444,017.92	
Investments, at cost, less reserves (including $228,266.64 U. S. Gov't bonds deposited under self-insurance and escrow agreements)		395,450.82	8,839,468.74
Prepaid Spring Catalog Costs, Paper Stock, Supplies, Insurance, Etc................			5,065,508.01
Fixed Assets (at cost, less accrued depreciation):			
Land..................................		$ 5,030,856.34	
Buildings and building equipment....................	$ 30,029,525.35		
Fixtures and equipment....	21,813,408.91		
	$ 51,842,934.26		
Less–Reserves for depreciation	17,405,318.98	34,437,615.28	
Leasehold improvements (less amortization)..		2,145,953.99	41,614,425.61
			$ 155,116,842.27

orporated and Subsidiaries

RPORATION)

heet—January 31, 1935

LIABILITIES

Current Liabilities:			
Accounts payable		$ 6,738,813.74	
Due customers		1,904,792.13	$ 8,643,605.87
Accrued expenses and taxes—			
Salaries, wages, and other operating expenses		$ 1,886,446.86	
Personal property, real estate, and sundry taxes		1,341,965.47	
Federal income taxes (subject to final determination by Treasury Department)		1,948,233.00	5,176,645.33
Current maturities of long term debt			61,000.00
Total current liabilities			$ 13,881,251.20
Long Term Indebtedness—due serially:			
Purchase contract on Chicago Administration Building and first mortgage bonds of subsidiary company			1,905,000.00
Reserve for Self-insurance			828,630.26
Capital Stock and Surplus:			
Capital stock—			
Authorized—			
Class "A"—$7 per share non-callable cumulative—205,000 shares, no-par value (on liquidation receives $100 per share)			
Common—6,000,000 shares, no-par value			
Issued (stated value)—			
Class "A"— 205,000 shares; Common— 4,565,004 shares		$ 123,202,620.08	
Earned surplus		16,374,449.37	
		$ 139,577,069.45	
Less—Treasury stock—			
Class "A"—3,446 shares	$ 252,676.50		
Common—47,764 shares	822,432.14	1,075,108.64	138,501,960.81
			$ 155,116,842.27

NOTES:

1. The use of surplus to the extent of the above treasury stock is restricted until such stock is sold or cancelled.
2. Accumulated dividends on Class "A" stock amounted to $823,012 at January 31, 1935, of which $705,439 was in arrears. In partial payment of this accumulation, a dividend of $1.75 per share, amounting to $352,719.50, was declared February 19, 1935, payable April 1, 1935.
3. An option to Mr. S. L Avery is outstanding on a balance of 48,000 shares of Common stock at $11 per share, expiring January 1, 1936.

Montgomery Ward & Co., Incorporated

COMPARATIVE CONSOLIDATED INCOME ACCOUNT
FOR THE YEARS ENDED JANUARY 31, 1935 AND 1934

	Year Ended January 31 1935	1934
Net Sales	$ 249,805,721.00	$ 187,632,543.00
Less—		
Cost of goods sold (including inventory write-downs) and all other expenses except depreciation and amortization	$ 235,741,378.02	$ 182,005,303.43
Depreciation of fixed properties	2,947,383.69	2,648,279.30
Amortization of leasehold improvements	309,323.54	318,160.96
	$ 238,998,085.25	$ 184,971,743.69
Net operating profit	$ 10,807,635.75	$ 2,660,799.31
Add—		
Interest earned on securities	$ 177,576.91	$ 610,909.60
Profit on securities and investments sold (net)	152,105.10	—
Profit on sale of raw materials	1,075,548.27	—
	$ 1,405,230.28	$ 610,909.60
	$ 12,212,866.03	$ 3,271,708.91
Deduct—		
Loss on securities and investments sold (net)	$ —	$ 515,796.18
Rent and liquidation expense on stores closed in prior years	51,812.23	527,955.89
Provision for inventory reserve	1,000,000.00	—
	$ 1,051,812.23	$ 1,043,752.07
Net profit before Federal and state income taxes	$ 11,161,053.80	$ 2,227,956.84
Provision for Federal and state income taxes	2,000,000.00	—*
Net profit carried to surplus	$ 9,161,053.80	$ 2,227,956.84

* *Included in cost of goods sold and other expenses—$100,000.00*

RECORD OF ANNUAL NET SALES

1934-5	$ 249,805,721	1929	$ 267,325,503
1933-4	187,632,543	1928	214,350,446
1932-3 (13 months)	176,488,690	1927	186,683,340
1931	200,400,193	1926	183,800,865
1930	249,097,223	1925	170,592,642

Montgomery Ward & Co., Incorporated

CONSOLIDATED EARNED SURPLUS ACCOUNT
FOR THE YEAR ENDED JANUARY 31, 1935

Balance January 31, 1934		$ 9,640,642.57
Add—		
Net profit for the year ended January 31, 1935		9,161,053.80
Total		$ 18,801,696.37
Deduct—		
Dividends declared during the year on Class "A" stock ($10.50 per share, leaving $3.50 per share in arrears)	$ 2,116,317.00	
Excess of amount at which 50,000 shares of treasury Common stock were carried on the books over the price at which they were sold to Mr. S. L. Avery in December 1934 ($11 per share) in accordance with an option agreement dated November 27, 1931	310,930.00	2,427,247.00
Balance January 31, 1935		$ 16,374,449.37

SUMMARY OF GENERAL RESERVE
FOR THE YEAR ENDED JANUARY 31, 1935

Balance January 31, 1934		$ 1,885,388.51
Deduct—		
Amount of appreciation added to fixed assets in 1917 now eliminated	$ 1,580,975.71	
Amount transferred to accounts receivable reserves for future collection costs of time-payment accounts	304,412.80	1,885,388.51
Balance January 31, 1935		$ —

To the Board of Directors,
Montgomery Ward & Co., Incorporated.

We have made an examination of the consolidated balance sheet of MONTGOMERY WARD & Co, INCORPORATED, AND SUBSIDIARY COMPANIES as at January 31, 1935, and of the statement of consolidated income and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies, we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of income, earned surplus and general reserve accounts correctly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at January 31, 1935, the results of their operations and the changes in surplus and general reserve accounts for the year ended that date.

ARTHUR ANDERSEN & CO.

Chicago, Illinois, March 7, 1935

Montgomery Ward & Co., Incorporated

DIRECTORS

Sewell L. Avery, *Chairman*

David A. Crawford
Harry P. Davison
George B. Everitt
Raymond H. Fogler
Frank M. Folsom
Charles F. Glore
Walter Hoving
D. R. McLennan
Silas H. Strawn
James W. Thorne

OFFICERS

Sewell L. Avery.......................... *President*
Silas H. Strawn........ *Chairman, Executive Committee*
Walter G. Baumhogger............... *Vice-President*
Raymond H. Fogler.................. *Vice-President*
Frank M. Folsom..................... *Vice-President*
Walter Hoving....................... *Vice-President*
George W. Vaught....................... *Treasurer*
Albert T. Huizinga.............. *Assistant Treasurer*
Stuart S. Ball........................... *Secretary*
Milton McManaway.............. *Assistant Secretary*

Transfer Agents

Montgomery Ward & Co., Incorporated, Chicago, Ill.
Montgomery Ward & Co., Incorporated, New York, N. Y.

Registrars

First National Bank of Chicago, Chicago, Ill.
Bankers Trust Company, New York, N. Y.